Overcoming “Financial-Phobia”
Julie A. Meek, PhD, RN

It’s not uncommon in nursing circles, whether in practice or academe, to see eyes roll back and mouths utter words of anguish when those proposing a solution or new initiative know that leaders will expect solid financial rationale as an integral part of the proposal. For many historical and contextual reasons, nurses and nursing have often shied away from putting serious effort into the development of financial expertise. What is now incredibly clear is that if one expects to be “at the table” influencing key decisions affecting healthcare, then the development of one’s own financial acumen is an imperative. Developing expertise involves both a basic understanding of financial/accounting principles as well as the ability to use financial information to think strategically and realistically about the pros and cons of various decisions. In addition, all leaders need an in depth understanding of how healthcare is reimbursed and which levers can be used to maximize revenues while protecting resources that most ensure the quality and safety of patient care. Many nurses have the desire to learn, but fear the topic and don’t know exactly where to start. This article will outline some practical advice about what to learn and will offer some helpful resources for getting started as well.

The Basics

The primary purpose of accounting is to provide information to the organization’s managers and investors about the financial condition of the entity in the form of the ***income statement*** (sales revenue compared to expenses), the ***balance sheet*** (the financial position of the business) and the ***statement of cash flows*** (both how much cash was gained from all sources of cash and how the cash was used). Taken together, these three reports are often referred to as *the financials*. Financials are used to not only monitor the financial health of the entity, but also are used to form the basic assumptions behind any future planned business activities to inform their associated impact on the organization. So developing an understanding of the income statement, balance sheet, and statement of cash flows is a fundamental first step in the development of one’s financial expertise.

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The *income statement* or as is often internally called the profit and loss statement (the "P&L") is a summary of the profit-making activities of the business, e.g., the revenues compared to the expenses for a time period (typically reported monthly). The basic format of the income statement is to first list sales revenues, then subtract the expenses of the business, to yield the *net income* which is often called the "bottom line" meaning the final profit for the period after all expenses are deducted from the revenues. In healthcare, sales revenues are most often reimbursements from payers (insurance, government, self-pay) for procedures, tests, and care delivered. Expenses represent both the direct costs of providing the product/service as well as the general overhead associated with the organization (administrative and general operating costs). The net result when subtracting all expenses from the revenues across the defined time period is how much profit or loss the business made. At first blush, the income statement would appear quite straightforward, but there are many management decisions reflected in this statement. Examples include how expenses are categorized, whether some expenses are relatively fixed or vary by sales volume, the organization's break-even point in the year (where revenues now exceed fixed costs and now become profit), etc.

The *balance sheet* is a statement of the financial condition of the business. The statement summarizes the assets owned by the business on one side with the sources of its assets on the other side. There are two sources of assets: liabilities and owner's equity. Though it may sound strange to call a liability an asset, liabilities come from borrowing money or buying things on credit that haven't been paid for yet, but are being used to grow the business, so therefore are considered assets. Owner's equity includes the money invested in the business by its owners and the profit that the business has earned and retained. The report is called a "balance sheet" because the total assets must equal the sum of the total liabilities plus the owner's equity. The owner's equity is thus the "balancing" number and for that reason reflects the business's *net worth*. The calculation is:

Assets – Liabilities = Net Worth

Thus the balance sheet offers an important report of the overall financial condition of the entity. Though the term net worth may suggest what the company could be sold for, nothing is further from the truth as many other factors come into play when valuing a business, but the number does reflect the “book value” of the owners’ equity.

Finally, the third component of the financials is the statement of cash flows which is a summary of the sources and uses of cash for the time period. Successful managers, especially entrepreneurs know that “cash is king” and that they have to manage both profit and cash flows as the two are rarely equal. Many an entrepreneur has been so focused on making a profit that they run out of cash and lose the business, so effectively managing both and understanding the relationship between profit and cash flow is essential.

Cash flows are divided into three basic categories for the reporting time period:

- Cash coming in from the profit-making or as often called, the *operating activities* of the business
- Cash inflows and outflows from the *investing activities* of the business
- Cash inflows and outflows from the *financing activities*

Though one would think that the cash coming in from the *operating activities* of the business would equal the profit listed in the P&L statement, the amount can be more or less than the reported profit for the time period. If one thinks of two trains headed to the same destination, it’s easy to see that the first train reflects the actual recording of sales revenue when the product/service was sold along with expenses incurred and that the first train is ahead of the second cash flow train which reflects when the cash from the sale was actually received. The cash outflows from *investing activities* reflect any long-term investments such as the purchase of a building or piece of equipment and likewise the inflows reflect any divestments of such assets. Finally, the *financing activities* include cash inflows from borrowing new money or receiving capital from investors, while cash outflows represent monies used to pay off debt as well as any distributions made to owners. The last line of the cash flow statement reflects the net increase or decrease in cash caused by the three types of cash flows. If one hears the term “bottom line”, the term never refers to the cash flow statement, but rather the net profit reported in the income statement. And it’s important to remember that although the profitability of a business often receives the most attention, the amount of cash flow from that profit merits careful attention as well.

Responsibilities and opportunities for the use of financial information

Rules and standards have been established for measuring profit and reporting financial information. These standards are called the *generally accepted accounting principles* or GAAP for short. Business managers must make sure that their financial reports follow GAAP. If a business’s financial statements are later discovered to be flawed or misleading, both the business and its executives can be sued for damages incurred by investors and lenders. No court of law will let a business manager plead ignorance, so it’s imperative that one takes personal responsibility for completely understanding the accounting methods used to prepare their financials. Business managers should closely scrutinize all cost figures because virtually every expense that managers see in reports and use to make decisions are based on choices between alternate accounting or allocation methods, so managers need to be clear on those choices and the justifications behind them.

So how can financial acumen make one a better manager? That’s really the bottom line isn’t it? Accounting provides the financial information, but if one knows how to read it and use it, one can make more insightful decisions before plunging ahead with decisions that may feel right at a gut-level, but often don’t pan out after deeper financial analysis. Business managers also need to know the key variables that determine their organization’s profit performance (key levers) so that they can make intelligent decisions about how best to protect and improve profit while maintaining positive cash flows.

One can start by analyzing where the revenue is coming from and what expenses contribute directly to the delivery of that product/service and perhaps what expenses are a wasteful result of process inefficiencies, lack of scrutiny on the cost or use of supplies or poor use of highly qualified and highly compensated staff time. Many units suffer revenue losses because they lack efficient inflows and outflows of patients into their areas. An hour or two per patient who is waiting to be admitted or waiting to be discharged, when added over an annual period, represents significant profit loss to the unit not to mention inconvenience and often suffering on the part of patients and their families. This is an important lesson in profit-making called *operating leverage*. This means that a seemingly small increase in sales volume (such as fitting in two more surgery cases per day via smooth workflows) has a big effect on profit. That's because it takes a certain volume of cases to cover the surgical unit's fixed costs. Once those fixed costs are covered, any sales volume over that number contributes significantly more to profit which is called *contribution margin*. It's not unheard of for a 5% increase in sales volume, e.g., 2-3 more cases per day, to cause a 30% increase in profit. This is where an understanding of your unit's financials really becomes *fun*! Using Lean Six Sigma techniques to map the current vs. desired states with the associated dependencies on other stakeholder's workflows such as housekeeping, transportation, receiving unit inflows, etc. can enlighten and energize the stakeholder groups to make the needed changes. Bottom line, using financial information to inform improvements creates better alignment of human and financial resources to the benefit of all of the organization's stakeholders.

Developing one's financial acumen

There are many ways to develop one's business acumen. A good basic start is to purchase a book that explains basic accounting principles in "lay language". [1] Using that basic knowledge, ask to see a sample unit's financial statements. Seek out someone in the organization who can explain each element of the reporting and ask lots of questions until all is clear. Suggest areas for improvement and include finance people on improvement teams so that they can help model various solutions in financial terms.

If pursuing an advanced degree, use elective credits to take a basic accounting course and also a course in healthcare financing. Learn to use spreadsheet software [2] by taking a basic course either online or in a workshop format. The intelligent and informed use of spreadsheet software, once learned, provides an invaluable tool that can be used in many ways to support sound decision-making. There are also a number of MOOC's [3-4] that can provide a basic introduction to accounting methods at no cost. Finally, seek out a financial mentor, meaning a person who has formal accounting education and credentialing, who can provide feedback and information during formative stages of building one's financial prowess. Regardless of how one develops their financial knowledge, skills, and abilities, the demand for nurse leaders with financial expertise is increasing exponentially. So for anyone with career aspirations to become a transformative healthcare leader who can bring the nursing lens to the managerial/executive table, overcoming one's fear of financials is a must.

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